



Powering Africa's Future: Examining the Power Africa Initiative

Statement for the Record by Daniel W. Yohannes, Chief Executive Officer, Millennium Challenge Corporation, to the Senate Foreign Relations Committee, Subcommittee on African Affairs

Chairman Coons, Ranking Member Flake, and Members of the Subcommittee on African Affairs:

The Millennium Challenge Corporation (MCC) appreciates this opportunity to describe our critical contributions to the USG Power Africa initiative, and commends you for convening this hearing to draw attention to this ambitious and very worthy initiative. We particularly appreciate the opportunity to outline the significant contributions that MCC has made and will make towards the goal of bringing electricity to Africa.

Before there was a Power Africa initiative, MCC was funding power in Africa. In a compact with Tanzania signed in 2008, MCC funded approximately \$200 million in power sector investments. As a requirement of this compact, the Government of Tanzania passed the first comprehensive revision to an electricity law dating back to 1931, which was far too dated to address current market needs. As a result of MCC's engagement with the government through the compact, Tanzanian regulators approved new, more cost-reflective tariffs, a key step toward bringing in private sector investment. MCC is currently working with the Government of Tanzania to develop a new compact that would include an even more comprehensive program of sector reforms that are intended to establish a more efficient, well-managed and creditworthy power utility that will operate in a competitive market place.

Since our inception 10 years ago, MCC has funded programs across a wide variety of sectors and

disciplines of international development. The common thread across MCC's commitments —whether a port in Benin, land tenure programs in Burkina Faso, education in Namibia, or a 100 MW submarine cable between Zanzibar and mainland Tanzania —is that economic analysis and country commitment underpin sector and project choices. Increasingly, African countries are discovering that one of their major constraints to economic growth is their lack of reliable power, and they are committing to tackling this constraint.

As partner countries in Africa identify energy poverty and insecurity as binding constraints to economic growth, they are developing their compacts funded by MCC to address this pressing challenge. Increasingly, MCC compacts in Africa are being designed to increase and improve access to reliable and affordable electricity. This means investing in energy infrastructure, policy and regulatory reforms and institutional capacity-building in the power sector.

Of the six Power Africa countries, three are current MCC partners: Ghana, Liberia and Tanzania. MCC is working with these governments to identify potential projects which will seek to address the nations' inadequate and unreliable power supply. These countries have set ambitious goals in electric power generation and are taking the steps to reform the utility and energy sectors to pave the way for investment and growth. Through the Power Africa initiative MCC will work with host governments to help increase technical skills and accelerate energy sector regulatory, market structure and enabling environment reforms that are critical to the sustainability of the sector and projects.

In addition to the \$200 million already invested in Tanzania, MCC plans to invest up to \$1 billion in Ghana, Tanzania, and Liberia's power sectors. Although Africa needs approximately \$40 billion annually to meet its power needs, only about a third of the investment requirements are currently being met. MCC will help fill the gap through investments in the sector. A reformed and competitive power market, which MCC will also support, should attract private sector investment to fill this gap.

In Ghana, two main reasons for low levels of private capital in the power sector are the lack of creditworthy off-takers and non-cost-reflective tariffs. To that end, the Public Utilities Regulatory Commission recently announced a 79% increase in tariffs. This important step towards cost recovery accompanies a commitment by the government to use an automatic adjustment mechanism to keep the rates reflective of evolving costs. The government has also committed to bring similar order to the pricing and supply of gas —a critical fuel for power generation.

MCC is working with the Government of Ghana to evaluate private sector participation to help the utility become a creditworthy entity. MCC has also proven the importance of integrating private sector input in program design early on in Ghana's compact development process. In fact, MCC's work has already scored a significant success before the compact has even been signed; General Electric credited MCC's compact and associated reforms with being a major factor in its plans to build a 1,000 megawatt power park and associated infrastructure in Ghana—a \$1.5 billion financial commitment.

Working with other agencies in the Power Africa initiative, MCC will maximize its power sector investments. USAID technical assistance and EX-IM and OPIC products can help unlock commercial

debt and equity capital, while the use of USTDA studies can reduce the early stage risk for companies.

MCC's work on energy extends to Malawi, which is not currently a Power Africa country. MCC's \$350 million compact in Malawi is focused on the turnaround of the power utility and related sector reforms. The government is taking steps to establish a market-friendly power sector, and the results have been encouraging. A number of key sector reforms have been implemented, the balance sheet of the utility has been cleaned up and the government has agreed to implement a restructuring program to prepare for a competitive power market which includes various options for increasing private sector involvement in the power sector.

In countries that meet MCC's good governance standards, MCC will work in partnership with country governments to uncover opportunities for economic growth, and when lack of energy is a constraint to economic growth, MCC has the proven ability to fund infrastructure, leverage private sector financing and investment, and commit to improving energy sector policies and institutions. MCC is proud to be part of the USG-wide partnership initiative that is Power Africa.